
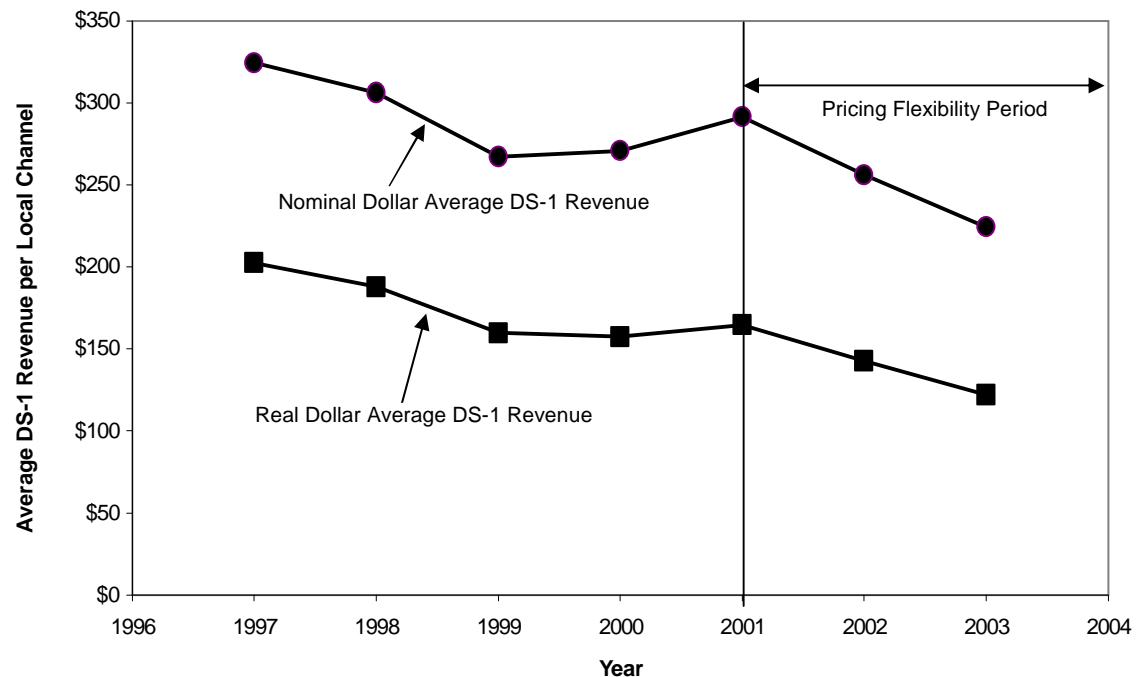


Special Access Prices and Competition >>

Special Access Rates Have Decreased Significantly in Response to Competition

-  BellSouth special access rates continue to decrease in response to competition
- DS1 prices have fallen 12.3% over the last 3 years on a nominal basis and 13.96% on a real basis.

BellSouth's DS-1 Revenue per Local Channel, 1997-2003



BellSouth Region* High Capacity Market Share

Total Market

REDACTED

BellSouth Metro Market High Capacity Shares

T1 Wireline Market

REDACTED

BellSouth Metro Market High Capacity Shares

T3 Wireline Market

REDACTED

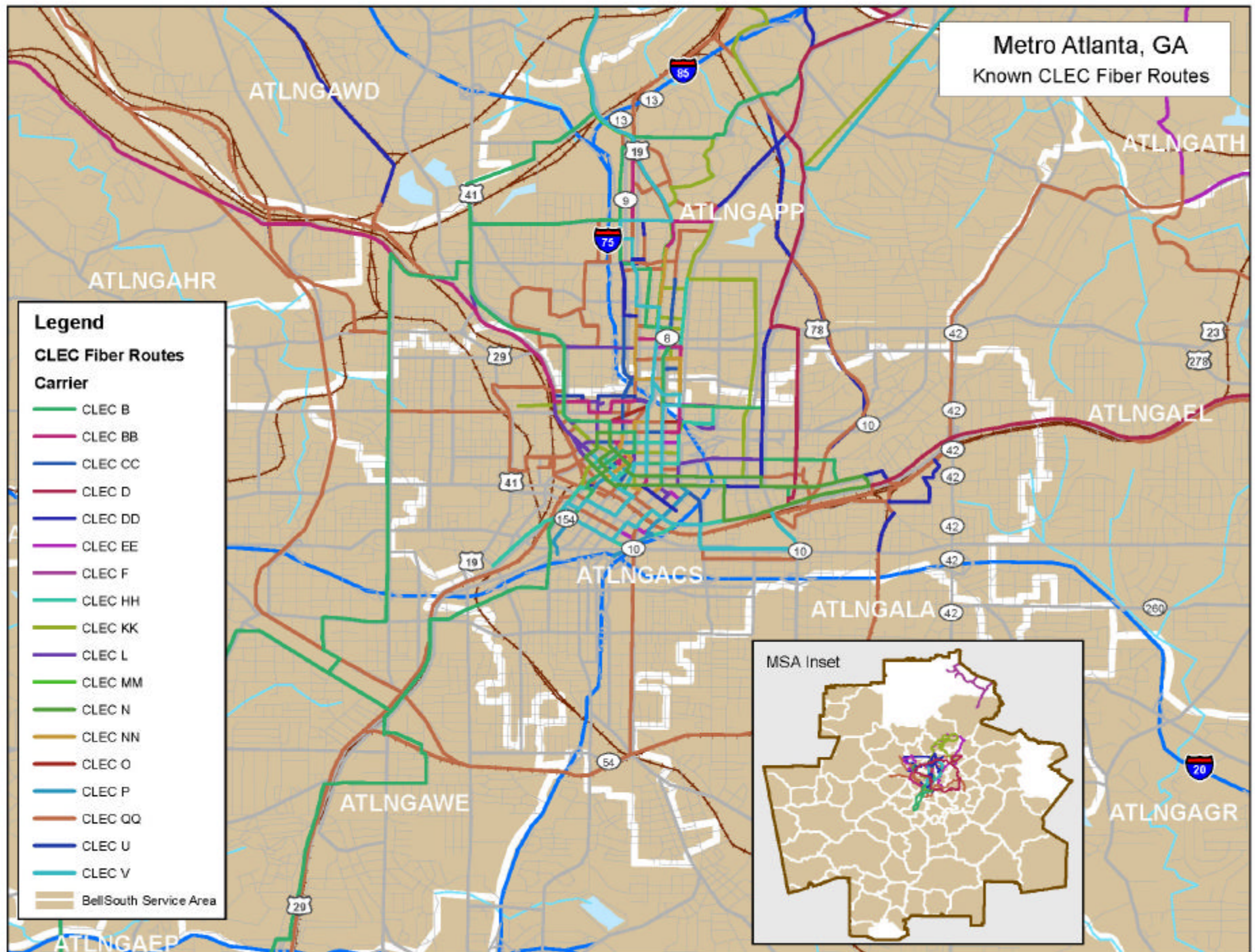
BellSouth Metro Market High Capacity Shares

OCN Wireline Market

REDACTED

CLECs Have Deployed Extensive Fiber

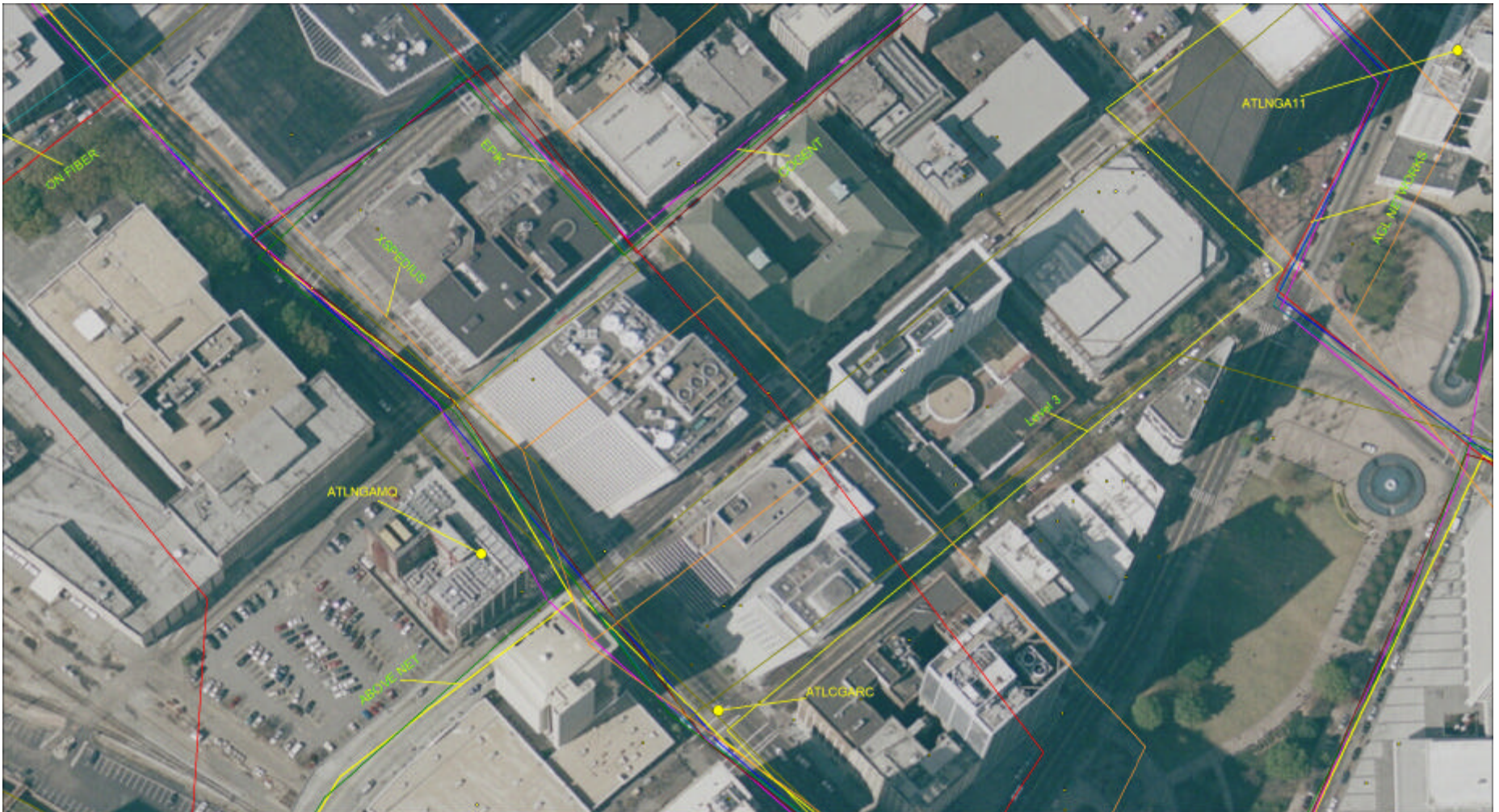
- ✍ As of 2003, CLEC networks consist of 324,000 route miles, an increase of 84% from 2001
- ✍ As of 2003, there were an average of 19 CLEC networks in the top 50 MSAs, an increase of 30% from 2001
- ✍ As of 2003, CLECs have deployed at least one network in 140 of the top 150 MSAs




Example Competitive Fiber Placement – Downtown Atlanta



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Competitors are Flourishing using Special Access

-  Ad Hoc ex parte filed in Dom/Non-Dom proceeding on August 12, 2004 identified the service providers that typically participate in enterprise customers' RFPs:
- “For interstate, interexchange services, those providers are AT&T, MCI, and Sprint plus a group of ‘spoilers,’ meaning less-established, second tier companies who are likely to price aggressively to win the customer’s business. This group includes companies such as Broadwing, Qwest, Global Crossing, Level 3, and Wiltel.”
 - In the majority of cases, the BOC’s “role is typically limited to providing a subset of the most basic services (e.g., ‘plain vanilla’ outbound voice) rather than the more sophisticated data applications (e.g., frame relay or MPLS) or services with a national footprint.”
 - The Ad Hoc ex parte demonstrates that the large business market is dominated by the large IXC.

ARMIS Based Special Access Rates of Return are Meaningless

- ✍ Fully distributed accounting costs for a single service, special access, and the associated earnings, cannot be used as a reasonable measure of economic profit.
- ✍ The assumption that there is an “authorized rate of return” under price cap regulation is false. Price cap regulation gives the regulated ILEC the ability to exceed the normal risk-weighted return on capital (i.e., its true opportunity cost) through cost-cutting, greater efficiency, and productivity growth.
- ✍ ARMIS cannot be relied upon because effective July 2001, the FCC froze its separations allocation factors at their 2000 levels. As a result, changes in traffic, demand, or relative use (including shifts towards more intensive use of data facilities that are included in the special access category) no longer effect the assignment of costs or investment to ARMIS categories.